

**REPORT OF THE AUDIT OF THE  
MADISON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MADISON COUNTY FISCAL COURT**

**June 30, 2003**

The Auditor of Public Accounts has completed the audit of the Madison County Fiscal Court for fiscal year ended June 30, 2003. Since the Former County Treasurer did not deposit and record all cash receipts of Madison County, we were unable to determine that certain revenues resulting from valid transactions were receipted and recorded on the Madison County financial statements. In addition, we were unable to obtain written representations from the Former County Treasurer as required by generally accepted auditing standards. Therefore, we have issued a qualified opinion on the governmental activities, the General Fund, the Road and Bridge Fund, the CSEPP Fund, and the aggregate remaining fund information of Madison County. We have issued an unqualified opinion on the business-type activities and the Jail Canteen Fund of Madison County.

#### **Financial Condition:**

The county had total net assets of \$18,967,713 as of June 30, 2003. The fiscal court had unrestricted net assets of \$7,083,902 in its governmental funds as of June 30, 2003, with total net assets of \$18,940,526. In its enterprise fund, total net cash and cash equivalents were \$27,187 with total net assets of \$27,187. In its fiduciary fund, total cash and cash equivalents held in custody for others were \$7,448, with net assets of \$0. Total debt principal as of June 30, 2003, was \$6,134,118 with \$228,610 due within the next year.

#### **Report Comments:**

- The Former County Treasurer Failed To Deposit And Record All Cash Receipts
- The Former County Treasurer Failed To Have Insurance Premiums Deducted From His Paycheck
- The Former County Treasurer Failed To Reconcile The Payroll Withholding Tax Account
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Former County Treasurer Intentionally Overrode Internal Controls
- Internal Controls Over Shelter In Place (SIP) Kits And Tone Alert Radio (TAR) Programs Of The Chemical Stockpile Emergency Preparedness Program (CSEPP) Should Be Implemented

#### **Deposits:**

As of June 30, 2003, \$503,478 of the fiscal court's deposits were uninsured and uncollateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Kent Clark, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Madison County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Madison County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Madison County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Former County Treasurer did not deposit and record all cash receipts of Madison County. As a result, we were unable to determine that certain revenues resulting from valid transactions were receipted and recorded for the governmental funds on the Madison County financial statements. In addition, we were unable to obtain written representation from the Former County Treasurer as required by generally accepted auditing standards.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
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In our opinion, except for the possible effect on the financial statements of the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, the Road and Bridge Fund, the CSEPP Fund, and the aggregate remaining fund information of Madison County, Kentucky, as of June 30, 2003, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the Jail Canteen Fund of Madison County, Kentucky, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madison County, Kentucky's basic financial statements. The accompanying supplemental information, combining and individual fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the possible effects on the combining and individual fund financial statements of being unable to determine that certain revenues resulting from valid transactions were receipted and recorded for governmental funds, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2004 on our consideration of Madison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
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Members of the Madison County Fiscal Court

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Former County Treasurer Failed To Deposit And Record All Cash Receipts
- The Former County Treasurer Failed To Have Insurance Premiums Deducted From His Paycheck
- The Former County Treasurer Failed To Reconcile The Payroll Withholding Tax Account.
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Former County Treasurer Intentionally Overrode Internal Controls
- Internal Controls Over Shelter In Place (SIP) Kits And Tone Alert Radio (TAR) Programs Of The Chemical Stockpile Emergency Preparedness Program (CSEPP) Should Be Implemented

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 3, 2004



MADISON COUNTY OFFICIALS

For The Year Ended June 30, 2003

**Fiscal Court Members:**

Kent Clark	County Judge/Executive
Larry Combs	Magistrate
Billy Ray Hughes	Magistrate
Roger D. Barger	Magistrate
William H. Tudor	Magistrate

**Other Elected Officials:**

Marc Robbins	County Attorney
Ron Devere	Jailer
William E. Gabbard	County Clerk
Linda Cates	Circuit Court Clerk
Cecil Cochran	Sheriff
Stephen M. Smith	Property Valuation Administrator
James A. Cornelison	Coroner

**Appointed Personnel:**

Glenna Baker*	Actng County Treasurer
Brent Baldwin**	Former County Treasurer
Shirl Cross	Occupational Tax Collector/ Finance Officer

\*Appointed County Treasurer September 23, 2003

\*\* Resigned June 27, 2003

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**MADISON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**



**MADISON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 5,037,902	\$ 27,187	\$ 5,065,089
Investments	2,046,000		2,046,000
Total Current Assets	7,083,902	27,187	7,111,089
Noncurrent Assets:			
Capital Assets - Net of			
Accumulated Depreciation			
Construction In Progress	1,920,736		1,920,736
Land	962,500		962,500
Buildings	7,476,438		7,476,438
Other Equipment	504,291		504,291
Vehicles and Equipment	1,128,102		1,128,102
Infrastructure Assets - Net			
of Depreciation	5,998,675		5,998,675
Total Noncurrent Assets	17,990,742		17,990,742
Total Assets	25,074,644	27,187	25,101,831
<b>LIABILITIES</b>			
Current Liabilities:			
Bonds Payable	5,000		5,000
Financing Obligations Payable	223,610		223,610
Total Current Liabilities	228,610		228,610
Noncurrent Liabilities:			
Bonds Payable	3,305,000		3,305,000
Financing Obligations Payable	2,600,508		2,600,508
Total Noncurrent Liabilities	5,905,508		5,905,508
Total Liabilities	6,134,118		6,134,118
<b>NET ASSETS</b>			
Invested in Capital Assets,			
Net of Related Debt	11,856,624		11,856,624
Unrestricted	7,083,902	27,187	7,111,089
Total Net Assets	\$ 18,940,526	\$ 27,187	\$ 18,967,713

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

**MADISON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,650,014	\$ 262,218	\$ 262,019	\$
Protection to Persons and Property	5,365,727	874,274	3,342,252	11,582
General Health and Sanitation	355,770	31,181		55,417
Social Services	141,502			
Recreation and Culture	164,197		105,150	100,000
Roads	1,681,166		1,326,022	398,680
Interest on Long Term Debt	289,513			
Capital Projects	712,561	169,680		2,418,835
Total Governmental Activities	11,360,450	1,337,353	5,035,443	2,984,514
Business-type Activities:				
Jail Canteen Fund	219,854	218,733		
Total Business-type Activities	219,854	218,733		
Total Primary Government	\$ 11,580,304	\$ 1,556,086	\$ 5,035,443	\$ 2,984,514

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes and Licenses

Occupational Taxes

Other Taxes

Excess Fees

Intergovernmental Revenues

Not Restricted

Unrestricted Investment Earnings

Other Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**MADISON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2003**  
**(Continued)**

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,125,777)	\$	\$ (2,125,777)
(1,137,619)		(1,137,619)
(269,172)		(269,172)
(141,502)		(141,502)
40,953		40,953
43,536		43,536
(289,513)		(289,513)
1,875,954		1,875,954
(2,003,140)		(2,003,140)
	(1,121)	(1,121)
	(1,121)	(1,121)
\$ (2,003,140)	\$ (1,121)	\$ (2,004,261)
1,682,847		1,682,847
204,100		204,100
345,870		345,870
1,528,148		1,528,148
729,569		729,569
355,891		355,891
232,456		232,456
218,773	126	218,899
300,534		300,534
5,598,188	126	5,598,314
3,595,048	(995)	3,594,053
15,345,478	28,182	15,373,660
\$ 18,940,526	\$ 27,187	\$ 18,967,713

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**



**MADISON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<b>General Fund</b>	<b>Road And Bridge Fund</b>	<b>CSEPP Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 3,570,257	\$ 164,256	\$ 631,751	\$ 671,638	\$ 5,037,902
Investments	2,046,000				2,046,000
Total assets	<u>\$ 5,616,257</u>	<u>\$ 164,256</u>	<u>\$ 631,751</u>	<u>\$ 671,638</u>	<u>\$ 7,083,902</u>
<b>FUND BALANCES</b>					
Fund Balances:					
Reserved for:					
Encumbrances	\$ 13,845	\$ 5,935	\$ 78,722		\$ 98,502
Unreserved:					
General Fund	5,602,412				5,602,412
Special Revenue Funds		158,321	553,029	671,638	1,382,988
Total Fund Balances	<u>\$ 5,616,257</u>	<u>\$ 164,256</u>	<u>\$ 631,751</u>	<u>\$ 671,638</u>	<u>\$ 7,083,902</u>

**Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets:**

Total Fund Balances	\$ 7,083,902
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	21,330,177
Accumulated Depreciation	(3,339,435)
Liabilities:	
Due Within One Year - Bonds, Notes, and Other Principal Payments	(228,610)
Due In More Than One Year - Bonds, Notes, and Other Principal Payments	(5,905,508)
Net Assets of Governmental Activities	<u>\$ 18,940,526</u>

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

**MADISON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<u>General Fund</u>	<u>Road And Bridge Fund</u>	<u>CSEPP Fund</u>
<b>REVENUES</b>			
Taxes	\$ 4,293,033		
Excess Fees	355,891		
Licenses and Permits	245,805		
Intergovernmental	3,219,619	1,508,326	2,819,529
Charges for Services	31,181		31,840
Miscellaneous	435,133	23,806	8,835
Interest	210,287	1,267	1,233
Total Revenues	<u>8,790,949</u>	<u>1,533,399</u>	<u>2,861,437</u>
<b>EXPENDITURES</b>			
General Government	1,116,882		
Protection to Persons and Property	1,222,932		2,610,900
General Health and Sanitation	358,757		
Social Services	141,502		
Recreation and Culture	259,398		
Roads		2,020,266	
Debt Service	473,174		
Capital Projects	3,675,886		
Administration	1,135,133	91,944	68,161
Total Expenditures	<u>8,383,664</u>	<u>2,112,210</u>	<u>2,679,061</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>407,285</u>	<u>(578,811)</u>	<u>182,376</u>
<b>Other Financing Sources (Uses)</b>			
KADD Funds Borrowed			
Transfers From Other Funds	351,172	635,000	
Transfers To Other Funds	(740,000)		
Total Other Financing Sources (Uses)	<u>(388,828)</u>	<u>635,000</u>	
Net Change in Fund Balances	18,457	56,189	182,376
Fund Balances - Beginning (restated)	5,597,800	108,067	449,375
Fund Balances - Ending	<u>\$ 5,616,257</u>	<u>\$ 164,256</u>	<u>\$ 631,751</u>

The accompanying notes are an integral part of the financial statements.

**MADISON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2003**  
**(Continued)**

	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>		
Taxes	\$ 197,502	\$ 4,490,535
Excess Fees		355,891
Licenses and Permits		245,805
Intergovernmental	1,385,935	8,933,409
Charges for Services	163,256	226,277
Miscellaneous	17,035	484,809
Interest	5,985	218,772
Total Revenues	<u>1,769,713</u>	<u>14,955,498</u>
<b>EXPENDITURES</b>		
General Government		1,116,882
Protection to Persons and Property	1,542,394	5,376,226
General Health and Sanitation		358,757
Social Services		141,502
Recreation and Culture		259,398
Roads	146,150	2,166,416
Debt Service	307,238	780,412
Capital Projects		3,675,886
Administration	153,220	1,448,458
Total Expenditures	<u>2,149,002</u>	<u>15,323,937</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(379,289)</u>	<u>(368,439)</u>
<b>Other Financing Sources (Uses)</b>		
KADD Funds Borrowed	670,000	670,000
Transfers From Other Funds	105,000	1,091,172
Transfers To Other Funds	(351,172)	(1,091,172)
Total Other Financing Sources (Uses)	<u>423,828</u>	<u>670,000</u>
Net Change in Fund Balances	44,539	301,561
Fund Balances - Beginning (restated)	<u>627,099</u>	<u>6,782,341</u>
Fund Balances - Ending	<u>\$ 671,638</u>	<u>\$ 7,083,902</u>

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**



**MADISON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds	\$	301,561
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		4,134,983
Depreciation Expense		(767,543)
Borrowed Money - KADD Financing Trust Lease Proceeds		(670,000)
KACO and KADD financing obligations and bond principal payments are expensed in the governmental funds as a use of current financial resources.		
KACO Financing Obligations		126,247
KADD Financing Obligations		464,800
Bond Payments		5,000

Change in Net Assets of Governmental Activities	\$	3,595,048
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The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2003**



**MADISON COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<u><b>Enterprise Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 27,187
Total Current Assets	<u>27,187</u>
<b>Liabilities</b>	
Total Liabilities	<u>\$ 0</u>
<b>Net Assets</b>	
Unrestricted	\$ 27,187
Total Net Assets	<u><u>\$ 27,187</u></u>

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**



**MADISON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<b>Enterprise Fund</b>
	<hr/>
	<b>Jail Canteen Fund</b>
	<hr/>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 218,733
Total Revenue	<hr/> 218,733 <hr/>
<b>Operating Expenses</b>	
Cost of Sales	(179,867)
Educational and Recreational	(15,949)
Inmate Medical Payments	(12,278)
Personnel Costs	(11,760)
Total Operating Expenses	<hr/> (219,854) <hr/>
Operating Income	<hr/> (1,121) <hr/>
<b>Nonoperating Revenues</b>	
Interest Income	126
Total Nonoperating Revenues	<hr/> 126 <hr/>
Change In Net Assets	(995)
Total Net Assets - Beginning	<hr/> 28,182 <hr/>
Total Net Assets - Ending	<hr/> \$ 27,187 <hr/>

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY  
STATEMENT OF CASH FLOWS-  
PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**



**MADISON COUNTY  
STATEMENT OF CASH FLOWS-  
PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<u><b>Enterprise Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>
<b>Cash Flows From Operating Activities</b>	
Receipts from Inmates	\$ 218,733
Cost of Sales	(179,867)
Educational and Recreational	(15,949)
Inmate Medical Payments	(12,278)
Personnel Costs	<u>(11,760)</u>
Net Cash Used by	
Operating Activities	<u>(1,121)</u>
<b>Cash Flows from Investing Activities</b>	
Interest Earned	<u>126</u>
Net Cash Provided by	
Investing Activities	<u>126</u>
Net Decrease in Cash and Cash	
Equivalents	(995)
Cash and Cash Equivalents - July 1, 2002	<u>28,182</u>
Cash and Cash Equivalents - June 30, 2003	<u><u>\$ 27,187</u></u>
 <b>Reconciliation of Operating Income to Net Cash Used by Operating Activities</b>	
Operating Loss	<u>\$ (1,121)</u>
Net Cash Used By Operating	
Activities	<u><u>\$ (1,121)</u></u>

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**



**MADISON COUNTY**  
**STATEMENT OF FIDUCIARY NET ASSETS – MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 7,448
Total Current Assets	<u>7,448</u>
<b>Liabilities</b>	
Amounts Held in Custody for Others	<u>7,448</u>
Total Liabilities	<u>7,448</u>
<b>Net Assets</b>	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

**MADISON COUNTY  
NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expenses is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Madison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

Additional - Madison County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

The Kentucky constitution provides for election of the above officials from the geographic area constituting Madison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.



**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Fiduciary Funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund – This fund is to be used to improve Madison County's capacity to plan for and respond to accidents associated with the storage and ultimate disposal of chemical warfare materials located at the Bluegrass Army Depot. The U.S. Congress appropriates funding for reimbursement of CSEPP expenditures. CSEPP funds may not be commingled with other funds.

The government also has the following nonmajor funds: Jail Fund, Local Government Economic Assistance Fund, Goggins Lane Bridge Fund, KADD Financing Trust Lease Acquisition Fund, CDBG Fund, and E-911 Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3d Saturday in April following the delinquency date.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds (Continued)**

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**Fiduciary Funds**

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

**D. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**E. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land and Buildings	\$ 50,000	10-60
Vehicles	5,000	3-5
Machinery and Equipment	5,000	3-20
Infrastructure	10,000	10-50

**F. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, KADD Financing Trust and KACO Leasing Trust financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**G. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Fund Equity (Continued)**

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**H. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**I. Related Organization**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Madison County Fiscal Court: Madison County Utility District, Madison County Sanitation District #2, North Madison County Sanitation District, Southern Madison Water District, and Kirksville Water District.

**J. Jointly Governed Organizations**

The Madison County Airport Board, Inc., whose purpose is to oversee the day-to-day operations of the airport, is a joint board of the County and the cities of Berea and Richmond. The County Judge/Executive with the approval of the fiscal court appoints two members, the Mayor of Berea with the approval of the City Council appoints two members, and the Mayor of Richmond with the approval of the City Council appoints two members. The County has no equity interest. The County contributed \$10,000 to the Madison County Airport Board, Inc. for the year ended June 30, 2003.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 2. Deposits and Investments**

**A. Deposits**

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 30, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$503,478 of public funds uninsured and unsecured. In addition, the county did not have a written agreement with all depository institutions securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county at year-end.

	<u>Bank Balance</u>
Insured by FDIC	\$ 1,037,869
Collateralized with securities held by the county's agent in the county's name	3,569,651
Collateralized with surety bond	100,000
Uncollateralized and uninsured	<u>503,478</u>
Total	<u><u>\$ 5,210,998</u></u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments**

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name. The county's investments are all considered Category 1.

<u>Types of Investments</u>	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Federal Home Loan Banks			
Consolidated Bond	\$ 1,165,000	\$ 1,165,000	\$ 1,214,450
Federal Home Loan Mortgage			
Corporation Medium Term Note	553,000	553,000	579,267
Federal National Mortgage Association			
Medium Term Note	<u>328,000</u>	<u>328,000</u>	<u>336,302</u>
Totals	<u>\$ 2,046,000</u>	<u>\$ 2,046,000</u>	<u>\$ 2,130,019</u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2003 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 277,000	\$ 685,500	\$	\$ 962,500
Construction In Progress		1,920,736		1,920,736
Total Capital Assets Not Being Depreciated	277,000	2,606,236		2,883,236
Capital Assets, Being Depreciated:				
Buildings	8,789,453	190,725		8,980,178
Other Equipment	689,957	194,115		884,072
Vehicles and Equipment	1,150,904	489,235		1,640,139
Infrastructure	6,287,880	654,672		6,942,552
Total Capital Assets Being Depreciated	16,918,194	1,528,747		18,446,941
Less Accumulated Depreciation For:				
Buildings	(1,341,432)	(162,308)		(1,503,740)
Other Equipment	(269,462)	(110,319)		(379,781)
Vehicles and Equipment	(362,096)	(149,941)		(512,037)
Infrastructure	(598,902)	(344,975)		(943,877)
Total Accumulated Depreciation	(2,571,892)	(767,543)		(3,339,435)
Total Capital Assets, Being Depreciated, Net	14,346,302	761,204		15,107,506
Government Activities Capital Assets, Net	\$ 14,623,302	\$ 3,367,440	\$ 0	\$ 17,990,742



**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 152,450
Protection to Persons and Property	161,663
General Health and Sanitation	5,963
Recreation and Culture	9,947
Roads, Including Depreciation of General Infrastructure Assets	<u>437,520</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 767,543</u></u>

**Note 4. Long-term Debt**

A. General Obligation Bonds, Series 2001

Bonds outstanding of the General Fund are \$3,310,000 of General Obligation Funding and Improvement Bonds issued on August 1, 2001, with interest rates of 4.15% through 4.875% payable semiannually. The total issue of the bonds is \$3,320,000 with principal paid annually April 1. The bonds fully amortize by April 1, 2021. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2004	161,073	5,000
2005	160,865	5,000
2006	160,657	5,000
2007	160,450	5,000
2008	160,243	5,000
2009-2013	798,063	25,000
2014-2018	792,187	25,000
2019-2021	<u>472,387</u>	<u>3,235,000</u>
 Totals	 <u><u>2,865,925</u></u>	 <u><u>\$ 3,310,000</u></u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Extension Building**

On July 2, 1996, Madison County Fiscal Court entered into a 23-year leasing agreement with KACo Leasing Trust for the Madison County Extension Building. Principal payments are due monthly. The county has made \$275,000 in additional principal payments thereby reducing the term of the lease by six years. The principal outstanding as of June 30, 2003 is \$202,704. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Payment</u>
2004	\$ 5,671	\$ 16,055
2005	5,178	16,835
2006	4,690	17,651
2007	4,165	18,510
2008	3,623	19,409
2009-2013	8,882	112,140
2014	5	2,104
Totals	<u>\$ 32,214</u>	<u>\$ 202,704</u>

**C. Fire Station**

On August 6, 1997, the Madison County Fiscal Court entered into a 15-year leasing agreement with KACo Leasing Trust for the construction of a fire station. Principal payments are due monthly. The principal outstanding as of June 30, 2003 is \$351,414. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Payments</u>
2004	\$ 9,768	\$ 32,555
2005	8,779	33,842
2006	7,795	35,179
2007	6,758	36,569
2008	5,688	38,015
2009-2013	11,076	175,254
Totals	<u>\$ 49,864</u>	<u>\$ 351,414</u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. HVAC System**

On February 12, 1998, the Madison County Fiscal Court entered into a 20-year leasing agreement with the KADD Financing Trust for the replacement for the HVAC system in the courthouse and related improvements and replacements. Principal payments are due annually by November 20. The principal outstanding as of June 30, 2003 is \$615,000. The schedule below sets forth Madison County's future principal and interest requirements after deducting AOC's rental payment:

Fiscal Year Ending June 30	Principal Payment	Scheduled Interest and Bank Charges	Total Payment	Less AOC Rental Amount*	Net Amount Due From County
2004	\$ 30,000	\$ 32,400	\$ 62,400	\$ (23,696)	\$ 38,704
2005	30,000	30,960	60,960	(23,696)	37,264
2006	30,000	29,482	59,482	(23,696)	35,786
2007	30,000	27,968	57,968	(23,696)	34,272
2008	35,000	26,326	61,326	(23,696)	37,630
2009- 2013	200,000	102,167	302,167	(118,480)	183,687
2014- 2018	260,000	40,517	300,517	(106,632)	193,885
Totals	<u>\$ 615,000</u>	<u>\$ 289,820</u>	<u>\$ 904,820</u>	<u>\$ (343,592)</u>	<u>\$ 561,228</u>

\*In accordance with a sublease agreement between Administrative Office of the Court (AOC) and the Madison County Fiscal Court dated March 1, 1998, AOC committed itself to participate in providing part of the costs of replacing the HVAC system in the courthouse and related improvements through use allowance payments.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

E. Family Court Facilities Project

On July 20, 2000, the Madison County Fiscal Court entered into a 17-year leasing agreement with KADD Financing Trust for the construction costs of the family court facilities project. Principal payments are due annually by May 20. The principal outstanding as of June 30, 2003 is \$1,070,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2004	61,614	55,000
2005	58,864	55,000
2006	56,111	60,000
2007	52,976	60,000
2008	49,839	65,000
2009-2013	193,242	380,000
2014-2017	67,983	395,000
Totals	<u>\$ 540,629</u>	<u>\$ 1,070,000</u>

F. Road/Fire Equipment

On July 31, 2002, the Madison County Fiscal Court entered into a seven-year leasing arrangement with KADD Financing Trust. The proceeds of the lease were used to refinance a previous lease dated April 21, 1999 and to purchase additional road and fire equipment. Principal payments are due annually by April 20. The principal outstanding as of June 30, 2003 is \$585,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Payments</u>
2004	\$ 24,305	\$ 90,000
2005	20,930	90,000
2006	17,420	100,000
2007	13,420	100,000
2008	9,320	100,000
2009	5,120	105,000
Totals	<u>\$ 90,515</u>	<u>\$ 585,000</u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Refunding and Improvement Bonds	\$ 3,315,000		\$ 5,000	\$ 3,310,000	\$ 5,000
KACO Financing Obligations	680,365		126,247	554,118	48,610
KADD Financing Obligations	<u>2,064,800</u>	<u>670,000</u>	<u>464,800</u>	<u>2,270,000</u>	<u>175,000</u>
Governmental Activities Long-term Liabilities	<u>\$ 6,060,165</u>	<u>\$ 670,000</u>	<u>\$ 596,047</u>	<u>\$ 6,134,118</u>	<u>\$ 228,610</u>

**Note 5. Short-Term Debt**

Changes In Short-term Liabilities

In July 2003, Madison County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$4,999,800, with principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$19,210.

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	\$ 0	\$ 4,999,800	\$ 4,999,800	\$ 0
Governmental Activities Short-term Liabilities	<u>\$ 0</u>	<u>\$ 4,999,800</u>	<u>\$ 4,999,800</u>	<u>\$ 0</u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 6. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Insurance**

For the fiscal year ended June 30, 2003, Madison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Subsequent Events**

On October 28, 2003, the Former County Treasurer was convicted of three counts of Theft By Unlawful Taking Over \$300, relating to audit findings for fiscal year ended June 30, 2002, and for the time period subsequent to that date through the date of his resignation, June 27, 2003, in the areas of Planning and Development receipts, CD interest receipts, and health insurance premiums. On September 12, 2003, prior to his conviction, the Former County Treasurer made restitution of \$15,130 to the county.

Madison County authorized its General Obligation Public Project Bonds, Series 2004, dated March 1, 2004, in the principal amount of \$1,635,000 in order to purchase an existing golf course, make necessary improvements to, and purchase equipment for, the golf course.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 9. Prior Period Adjustments**

The beginning fund balance of \$6,782,341 includes prior period adjustments of \$4,752 for prior year voided checks and \$7,897 for receipts previously omitted.

**Note 10. Changes in Accounting Principles**

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34, and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The beginning net asset balance for governmental activities was \$15,345,478 and the beginning fund balance was \$6,782,341 for an increase of \$8,563,137 that was due to capital assets previously omitted.

The beginning net asset balance of the business-type activities was not affected by this change in accounting principles.

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**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**REQUIRED SUPPLEMENTAL INFORMATION**

**For The Year Ended June 30, 2003**



**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplemental Information**  
**Modified Cash Basis**

**For The Year Ended June 30, 2003**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 4,075,100	\$ 4,075,100	\$ 4,293,033	\$ 217,933
Excess Fees	522,885	522,885	355,891	(166,994)
Licenses and Permits	242,000	242,000	245,805	3,805
Intergovernmental Revenue	3,134,666	3,452,666	3,219,619	(233,047)
Charges for Services	33,000	33,000	31,181	(1,819)
Miscellaneous	217,500	322,500	435,133	112,633
Interest	233,000	233,000	210,287	(22,713)
Total Revenues	8,458,151	8,881,151	8,790,949	(90,202)
<b>EXPENDITURES</b>				
General Government	1,157,740	1,181,310	1,116,882	64,428
Protection to Persons and Property	1,292,431	1,333,944	1,222,932	111,012
General Health and Sanitation	361,225	410,791	358,757	52,034
Social Services	116,300	164,402	141,502	22,900
Recreation and Culture	103,100	270,941	259,398	11,543
Debt Service	625,349	637,668	473,174	164,494
Capital Projects	4,813,501	4,795,625	3,675,886	1,119,739
Administration	1,045,618	1,143,583	1,135,133	8,450
Total Expenditures	9,515,264	9,938,264	8,383,664	1,554,600
Excess (Deficiency) of Revenues Over Expenditures	(1,057,113)	(1,057,113)	407,285	1,464,398
<b>OTHER FINANCING SOURCES (USES)</b>				
Borrowed Money	350,000	350,000		(350,000)
Transfers In From Other Funds			351,172	351,172
Transfers Out to Other Funds	(867,887)	(867,887)	(740,000)	127,887
Total Other Financing Sources and Uses	(517,887)	(517,887)	(388,828)	129,059
Net Changes in Fund Balances	(1,575,000)	(1,575,000)	18,457	1,593,457
Fund Balances - Beginning	1,575,000	1,575,000	5,597,800	4,022,800
Fund Balances - Ending	\$ 0	\$ 0	\$ 5,616,257	\$ 5,616,257

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS**  
**Required Supplemental Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2003 (Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,433,775	\$ 1,433,775	\$ 1,508,326	\$ 74,551
Miscellaneous	15,000	15,000	23,806	8,806
Interest	2,000	2,000	1,267	(733)
Total Revenues	<u>1,450,775</u>	<u>1,450,775</u>	<u>1,533,399</u>	<u>82,624</u>
<b>EXPENDITURES</b>				
Roads	2,092,155	2,269,931	2,020,266	249,665
Administration	316,899	139,123	91,944	47,179
Total Expenditures	<u>2,409,054</u>	<u>2,409,054</u>	<u>2,112,210</u>	<u>296,844</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(958,279)</u>	<u>(958,279)</u>	<u>(578,811)</u>	<u>379,468</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In From Other Funds	<u>908,279</u>	<u>908,279</u>	<u>635,000</u>	<u>(273,279)</u>
Total Other Financing Sources and Uses	<u>908,279</u>	<u>908,279</u>	<u>635,000</u>	<u>(273,279)</u>
Net Changes in Fund Balances	(50,000)	(50,000)	56,189	106,189
Fund Balances - Beginning	<u>50,000</u>	<u>50,000</u>	<u>108,067</u>	<u>58,067</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 164,256</u>	<u>\$ 164,256</u>

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS**  
**Required Supplemental Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2003 (Continued)**

	<b>CSEPP FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 4,444,545	\$ 5,025,303	\$ 2,819,528	\$ (2,205,775)
Charges for Services	38,000	38,000	31,840	(6,160)
Miscellaneous	27,500	27,500	8,835	(18,665)
Interest	1,500	1,500	1,233	(267)
Total Revenues	<u>4,511,545</u>	<u>5,092,303</u>	<u>2,861,436</u>	<u>(2,230,867)</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	4,169,288	4,898,325	2,610,900	2,287,425
Administration	542,257	393,978	68,161	325,817
Total Expenditures	<u>4,711,545</u>	<u>5,292,303</u>	<u>2,679,061</u>	<u>2,613,242</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(200,000)</u>	<u>(200,000)</u>	<u>182,375</u>	<u>382,375</u>
Net Changes in Fund Balances	(200,000)	(200,000)	182,375	382,375
Fund Balances - Beginning	<u>200,000</u>	<u>200,000</u>	<u>449,375</u>	<u>249,375</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 631,750</u>	<u>\$ 631,750</u>

**MADISON COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**For The Year Ended June 30, 2003**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MADISON COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**

**Other Supplemental Information**

**For The Year Ended June 30, 2003**





**MADISON COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplemental Information**

**For The Year Ended June 30, 2003**

**Special Revenue Funds**

	<b>Jail Fund</b>	<b>LGEA Fund</b>	<b>Goggins Lane Bridge Fund</b>	<b>CDBG Fund</b>	<b>E-911 Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash	\$ 36,275	\$ 388,688	\$ 32,474	\$ 557	\$ 213,644	\$ 671,638
Total assets	<u>\$ 36,275</u>	<u>\$ 388,688</u>	<u>\$ 32,474</u>	<u>\$ 557</u>	<u>\$ 213,644</u>	<u>\$ 671,638</u>
<b>FUND BALANCES</b>						
Unreserved:						
Special Revenue Funds	36,275	388,688	32,474	557	213,644	671,638
Total Fund Balances	<u>\$ 36,275</u>	<u>\$ 388,688</u>	<u>\$ 32,474</u>	<u>\$ 557</u>	<u>\$ 213,644</u>	<u>\$ 671,638</u>

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**MADISON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplemental Information**  
**For The Year Ended June 30, 2003**

**MADISON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplemental Information**

**For The Year Ended June 30, 2003**

	<b>Special Revenue Funds</b>			
	<b>Jail Fund</b>	<b>LGEA Fund</b>	<b>Goggins Lane Bridge Fund</b>	<b>KADD Financing Trust Lease Acquisition Fund</b>
<b>REVENUES</b>				
Taxes				
Intergovernmental	1,077,589	216,376		
Charge for Services	153,256			
Miscellaneous	17,035			
Interest	197	3,426	320	360
Total Revenues	1,248,077	219,802	320	360
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,240,366			
Roads		146,150		
Debt Service				307,238
Administration	110,852			11,950
Total Expenditures	1,351,218	146,150		319,188
Excess (deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	(103,141)	73,652	320	(318,828)
<b>Other Financing Sources (Uses)</b>				
Borrowed Money				670,000
Transfers In From Other Funds	105,000			
Transfers Out to Other Funds				(351,172)
Total Other Financing Sources (Uses)	105,000			318,828
Net Change in Fund Balances	1,859	73,652	320	0
Fund Balances - Beginning	34,416	315,036	32,154	0
Fund Balances - Ending	\$ 36,275	\$ 388,688	\$ 32,474	\$ 0

**MADISON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**

**Other Supplemental Information**  
**For The Year Ended June 30, 2003**  
**(Continued)**

<u>Special Revenue Funds</u>		
<u>CDBG Fund</u>	<u>E-911 Fund</u>	<u>Total Governmental Funds</u>
	\$ 197,501	\$ 197,501
	91,970	1,385,935
	10,000	163,256
		17,035
	1,683	5,986
	301,154	1,769,713
	302,028	1,542,394
		146,150
		307,238
25	30,393	153,220
25	332,421	2,149,002
(25)	(31,267)	(379,289)
		670,000
		105,000
		(351,172)
		423,828
(25)	(31,267)	44,539
582	244,911	627,099
\$ 557	\$ 213,644	\$ 671,638

**MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2003**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the business-type activities, the Jail Canteen Fund, and a qualified opinion on the governmental activities, the General Fund, the Road and Bridge Fund, the CSEPP Fund, and the aggregate remaining fund information of Madison County.
2. One reportable condition relating to the internal control of the audit of the financial statements is reported in the Independent Auditor's Report. This reportable condition is also a material weakness.
3. Four instances of noncompliance material to the financial statements of Madison County were disclosed during the audit.
4. One reportable condition relating to the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Madison County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards programs for Madison County are reported in Part C of this schedule.
7. The programs tested as major programs were: Chemical Stockpile Emergency Preparedness Program (CSEPP) - CFDA #83.549; Surveys, Studies, Investigations, and Special Purpose Grant - CFDA #66.606; Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) - CFDA #20.205
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Madison County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**NONCOMPLIANCES**

**Reference Number 2003-1**

**The Former County Treasurer Failed To Deposit And Record All Cash Receipts**

During fiscal year ended June 30, 2003, the Former County Treasurer failed to deposit and record cash receipts of \$7,323 as required by KRS 68.020. In accordance with this statute, the county treasurer shall receive and receipt for all money due the county as well as keep an accurate detailed account of all money received by him for the county.

During our testing of Planning and Development receipts, we discovered instances where the deposits originally prepared by Planning and Development were either altered by the Former County Treasurer or a new deposit was prepared by the Former County Treasurer, reducing the amount of cash receipts collected by the Office of Planning and Development. Cash receipts collected by the Office of Planning and Development totaling \$1,144 were not deposited nor recorded on the cash receipts ledger during fiscal year ended June 30, 2003. Furthermore, county, bank, and Planning and Development records indicate the Former County Treasurer failed to record the receipt of various General Fund revenue checks totaling \$5,868 received by county. The Former County Treasurer then replaced cash collected by Planning and Development with the checks. Consequently, since the checks agreed with the amount of cash removed, Planning and Development receipts were recorded correctly. However, the checks replacing the cash were never recorded in the appropriate revenue accounts.

During our testing of miscellaneous receipts of the General Fund, we discovered a miscellaneous reimbursement of \$311 that had been cashed by the Former County Treasurer. This check had not been recorded on the cash receipts ledger nor was it deposited in an official Madison County bank account.

**MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2003**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES (Continued)

**Reference Number 2003-1 (Continued)**

The Former County Treasurer Failed To Deposit And Record All Cash Receipts (Continued)

The discrepancies involving Planning and Development receipts were referred to the Attorney General's Office and on October 28, 2003, the Former County Treasurer was convicted of Theft by Unlawful Taking Over \$300. On September 12, 2003, prior to his conviction, the Former County Treasurer made restitution of \$7,012 to the county for the Planning and Development receipts. The Miscellaneous receipt of \$311 that had been cashed was discovered subsequent to the Former County Treasurer's conviction.

*County Judge/Executive Kent Clark's Response:*

*Case has been resolved and restitution made.*

**Reference Number 2003-2**

The Former County Treasurer Failed To Have Insurance Premiums Deducted From His Paycheck

In the prior year audit, health insurance premiums totaling \$844 was not withheld from the Former County Treasurer's paycheck for 5 pay periods. In fiscal year ending June 30, 2003, the Former County Treasurer failed to withhold \$295 of health insurance premiums from his August 2002 paychecks. Monthly health insurance premiums were paid by the county to Bluegrass Family Health and included family coverage health insurance premiums for the Former County Treasurer. Prior to his resignation on June 27, 2003, the Former County Treasurer repaid \$633 of these health insurance premiums by having them withheld from his paychecks in May and June 2003. This matter was referred to the Attorney General's Office and on October 28, 2003, the Former County Treasurer was convicted of Theft by Unlawful Taking Over \$300. On September 12, 2003, prior to his conviction, the Former County Treasurer made restitution \$506 to the county for family insurance premiums paid by the county, but not withheld from his paycheck.

*County Judge/Executive Kent Clark's Response:*

*Case has been resolved and restitution made.*

**MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2003**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES (Continued)

**Reference Number 2003-3**

The Former County Treasurer Failed To Reconcile The Payroll Withholding Tax Account

During fiscal year ended June 30, 2003, the Former County Treasurer did not prepare bank reconciliation for the Payroll Tax Withholding Account as required by KRS 68.210. In addition, the Former County Treasurer did not reconcile employee payroll withholding or employer matching benefit payments to the actual amounts due for payroll liabilities. Failure to perform this reconciliation resulted in numerous errors as noted during our testing of the Payroll Withholding Tax Account:

- We noted several checks written to the Internal Revenue Service (IRS) and Kentucky State Treasurer (KST) for prior years' payroll periods. In addition, some federal and state payments were either not paid or not paid timely resulting in penalties and interest. It also appears that there had been some overpayments. However, based on the available records maintained by the Former County Treasurer, we could not determine any correct amounts. The current County Treasurer and Finance Officer continue to work with the IRS and KST to resolve any discrepancies. Subsequent to June 30, 2003 the IRS has refunded penalties and interest totaling \$59,227 and are continuing to review Madison County records. As information comes to their attention the appropriate agencies issue letters to Madison County. In addition, other payroll withholding errors made by the Former County Treasurer are corrected as they are discovered.
- During our testing of deposits made to the Payroll Withholding Tax Account, we noted the Former County Treasurer deposited county receipts directly in this account that were not recorded on the Cash Receipts Ledger of the appropriate county fund. These deposits included a KACO insurance claim for \$6,010, Municipal Road Aid for \$6,864, Road Aid for \$23,408, and a Road Fund Reimbursement for \$1,113 for a total of \$37,395. Since the Payroll Withholding Tax Account balance was insufficient due to the errors noted above, it appears the Former County Treasurer made these deposits to cover payroll liabilities and assessed penalties and interest. After the Former County Treasurer resigned, the county had to transfer an additional \$150,000 from the General Fund to the Payroll Withholding Tax account to pay liabilities of the account.

These errors would have been corrected and resolved had the Former County Treasurer prepared bank reconciliation for the Payroll Withholding Tax Account as required by KRS 68.210 and verified that actual payments for payroll liabilities agreed to payroll reports. Due to the reconciling problems encountered with the Former County Treasurer's Payroll Withholding Tax Account, the current County Treasurer is no longer utilizing this account, but rather all payroll liabilities are being paid from the Payroll Account.

*County Judge/Executive Kent Clark's Response:*

*Account has since been closed and payroll is being reconciled.*



**MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2003**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES (Continued)

**Reference Number 2003-4**

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On June 30, 2003, \$503,478 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Judge/Executive Kent Clark's Response:*

*We will try to ensure all funds are collateralized.*

REPORTABLE CONDITION/MATERIAL WEAKNESS

**Reference Number 2003-5**

The Former County Treasurer Intentionally Overrode Internal Controls

While the County had internal control procedures in place in the area of cash receipts, the Former County Treasurer intentionally overrode those internal controls. As a result, the Former County Treasurer was able to misappropriate county receipts totaling \$7,323 as described in Reference Number 2003-1.

*County Judge/Executive Kent Clark's Response:*

*Case has been resolved and restitution made.*

**MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2003**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT**

REPORTABLE CONDITION

U.S. DEPARTMENT OF HOMELAND SECURITY –  
Chemical Stockpile Emergency Preparedness Program (CSEPP)

**Reference Number 2003-6**

Internal Controls Over Shelter In Place (SIP) Kits And Tone Alert Radio (TAR) Programs Of The  
Chemical Stockpile Emergency Preparedness Program (CSEPP) Should Be Implemented

During our testing of the SIP and TAR programs of CSEPP, we noted the following:

- Documentation for payments of \$3 per SIP kit delivery, \$6 per TAR installation, and \$3 per re-canvas to individuals/civic groups was inadequate.
- Delivery/re-canvas lists generated by CSEPP for the SIP kits and TARs included multiple listings for the same address. We were unable to determine if multiple address listings were for the same street address with multiple apartments or if the same address had been included multiple times for payment calculation to the individuals/civic groups making the deliveries. In addition, documentation did not differentiate between deliveries or re-canvasses. Furthermore, signatures were required of residents when the TARs were installed and we noted instances where signatures were not obtained.
- Documentation for total number of SIP kits and TARs purchased to date for the programs when compared to the inventory records of the SIP kits and TARs programs was contradictory.

We recommend the following internal controls be implemented for the SIP kits and TARs programs of CSEPP in order to ensure that the expenditures for the delivery, installation, and/or re-canvas of the SIP kits and TARs are properly accounted for, and the inventories for these programs are accurately maintained:

- Lists generated by CSEPP for delivery/installation/re-canvas purposes should be checked by the CSEPP director or a designated employee for accuracy and completeness prior to making payments to individuals/civic groups in order to avoid multiple payments for the same street address. When checking the lists, they should also ensure documentation is adequate for differentiating between a delivery, installation, or re-canvas and a resident's signature is obtained when required.
- We recommend a physical inventory be completed for the SIP kits and TARs programs in order to determine the accurate balance on hand. We further recommend controls be implemented to ensure adequate inventory records are maintained as purchases and/or deliveries are made. If inventoried items are damaged, destroyed, or unusable, we recommend approval be obtained from the CSEPP director before items are disposed of and adjustments are made to the inventory balance. Furthermore, we recommend periodic physical inventories be taken and compared to the inventory records and any discrepancies resolved or explained.

*County Judge/Executive Kent Clark's Response:*

*Controls have been implemented.*

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2003**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Reference Number 2002-1: The Former County Treasurer failed to deposit and record all cash receipts. This finding has not been corrected and is commented on in the current year findings.

Reference Number 2002-2: The County Treasurer's Office had a lack of segregation of duties in internal control in the area of payroll. This finding has been corrected and internal controls have been implemented in the area of payroll.

Reference Number 2002-3: The County should pay withholdings in a timely manner thereby avoiding assessment of penalty and interest. This finding has not been corrected and is commented on in the current year findings.

Reference Number 2002-4: The County should require depository institutions to pledge or provide sufficient collateral to protect deposits. This finding has not been corrected and is commented on in the current year findings.

Reference Number 2002-5: The County failed to obtain bids for purchases made with CSEPP funds. The County Judge/Executive informed the Emergency Management Agency (EMA) Director in writing that any CSEPP projects that may incur a cost of \$5,000 or more should be submitted to the County Judge/Executive's office for his review prior to work being performed or initiated by the EMA or CSEPP staff. The County Judge/Executive's review of these projects would determine whether bids should be obtained, thereby avoiding bid violations in the future.

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**MADISON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Other Supplemental Information**



**MADISON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplemental Information**

**Fiscal Year Ended June 30, 2003**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 <u>U.S. Department of the Interior</u>		
 Passed-Through State Department for Local Government:		
American Battlefield Protection Program - Battle of Richmond Historic Site (CFDA #15.926)	Not Available	\$ 56,800
 <u>U.S. Department of Transportation</u>		
 Passed-Through State Transportation Cabinet:		
Transportation Equity Act for the 21st Century (TEA-21) Battle of Richmond Historic Site (CFDA #20.205)	C-03020061	454,400
 <u>U.S. Appalachian Regional Commission</u>		
 Passed-Through State Department for Local Government:		
Appalachian Regional Commission Grants- Northern Madison Sewer Extensions (CFDA #23.002)	Not Available	12,300
 <u>U.S. Environmental Protection Agency</u>		
Surveys, Studies, Investigations and Special Purpose Grants- Madison County Wastewater Collection System (CFDA # 66.606)	Not Available	389,810

**MADISON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2003**  
**Other Supplemental Information**  
**(Continued)**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs: (Continued)		
<u>U. S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	\$ 10,276
Chemical Stockpile Emergency Preparedness Program (CFDA # 83.549)	M-02405489	<u>2,710,243</u>
Total U. S. Department of Homeland Security		<u>\$ 2,720,519</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 3,633,829</u></u>
Noncash Programs:		
<u>U.S. Department of Agriculture</u>		
Passed-Through State Department of Agriculture:		
Jail Commodity Program (CFDA #10.550)	Not Available	<u>\$ 615</u>
Total Noncash Expenditures of Federal Awards		<u><u>\$ 615</u></u>



**MADISON COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplemental Information**

**Fiscal Year Ended June 30, 2003**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Madison County, Kentucky and is presented on a modified cash basis of accounting, except for the noncash programs, which represents commodities received and distributed by the county. The dollar value of these commodities has been provided by the Department of Agriculture. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The federal expenditures for the Chemical Stockpile Emergency Preparedness Program includes a payment to the following subrecipient:

Subrecipient	Pass-through Grant Amount
Madison County Board of Education	\$ 1,111,175

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kent Clark, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Madison County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Madison County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the schedule of findings and questioned costs.

- Reference Number 2003-1: The Former County Treasurer Failed To Deposit And Record All Cash Receipts
- Reference Number 2003-2: The Former County Treasurer Failed To Have Insurance Premiums Deducted From His Paycheck
- Reference Number 2003-3: The Former County Treasurer Failed To Reconcile The Payroll Withholding Tax Account
- Reference Number 2003-4: The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Madison County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Madison County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- Reference Number 2003-5: The Former County Treasurer Intentionally Overrode Internal Controls

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we consider the following reportable condition to be a material weakness.

- Reference Number 2003-5: The Former County Treasurer Intentionally Overrode Internal Controls

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 3, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kent Clark, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

**Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Madison County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Madison County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Madison County's management. Our responsibility is to express an opinion on Madison County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Madison County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Madison County's compliance with those requirements.

In our opinion, Madison County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Madison County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Madison County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance (Continued)

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Madison County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- Reference Number 2003-6: Internal Controls Over Shelter In Place (SIP) Kits And Tone Alert Radio (TAR) Programs Of The Chemical Stockpile Emergency Preparedness Program (CSEPP) Should Be Implemented

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 3, 2004

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MADISON COUNTY FISCAL COURT

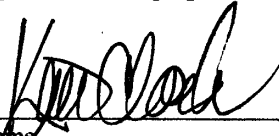
For The Fiscal Year Ended  
June 30, 2003




**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**MADISON COUNTY FISCAL COURT**

For The Fiscal Year Ended June 30, 2003

The Madison County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Name

County Judge/Executive

  
\_\_\_\_\_  
Name

County Treasurer



